L6500-3

NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
1985 ANNUAL MEETING MEMBERSHIP SURVEY

Presented by

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NABE members, as a group, report essentially stable demand conditions for their firms over the summer months. Those NABE members in the goods-producing sectors of the economy, however, point to further and significant deterioration in their firm's position during the same period. The good news is that inventories now appear lean enough to allow a production rebound soon. Furthermore, our estimate of 1985 growth implies a significant pickup in second-half growth from the very slow pace of early 1985.

Our uncertainty concerning the current state of the economy is unquestionably coloring our forecast for the year ahead. We have become increasingly sanguine about inflation and interest rates over the past year and continue to stretch out our estimates of how long the current recovery will last. But we are far from bullish in our growth expectations for 1986, and we are downright pessimistic about controlling federal government spending and budget deficits and about implementing tax reform.

These are among the findings of the latest poll of nearly 350 members of the National Association of Business Economists (NABE) concluded in early September. More complete results and comparisons are detailed below.

Current Conditions and Near-Term Economic Outlook

Our overall membership reports roughly stable demand conditions compared with a quarter ago, but demand slipped further for goods-producing industries. Forty-four percent of our overall membership still reports rising demand, compared to only 34 percent in goods-producing industries. Furthermore, for goods-producing industries, the number reporting rising demand is down from 43 percent last quarter and 85 percent in early 1984.

Our members indicate weakness in employment, capital spending and profit margins as well. Almost half of our membership now reports falling profit margins -- the highest percentage since the recession year of 1982. One cause of those falling margins is that our firms are having difficulty

raising prices. Indeed, twice as many members report falling prices as rising prices (29%-to-15%). One result is that capital investment is beginning to suffer. The percentage of our overall membership reflecting rising capital outlays has fallen from 50 percent a year ago to 31 percent today. For goods-producing industries, the decline has been even more dramatic -- from 59 percent to 30 percent.

Being bombarded with all of this negativism, our sights are not set very high for 1986 -- no matter what industry we represent. We anticipate real growth of only 2.7 percent from this year's fourth quarter to next year's, profit expansion of less than 4 percent, and a slight uptick in the unemployment rate. (Admittedly, though, our forecast for the 1986 unemployment rate would probably be somewhat lower if we had known the actual August figure of 7 percent while compiling our predictions.) The ever-so-modest pickup in economic growth forecast for next year is anticipated despite a flat housing and auto market and less push from investment.

NABE members, across all industry groups, persist in their belief that inflation will accelerate in 1986, but the move we expect is minuscule: from the upper 3's to the very low 4's. Consistently, we believe that interest rates will move up only marginally -- keeping inflation-adjusted interest rates where they are today.

Our view of the world over the next 15 months is decidedly more pessimistic than the assumptions being used by either the Office of Management and Budget (OMB) or the Congressional Budget Office (CBO) in their budget projections. It's no wonder, therefore, that we are much less sanguine about the prospects for budget deficits. For example, we expect real growth of 2.7 percent (fourth-quarter-to-fourth-quarter) in 1986, versus the 4 percent assumption of OMB and the 3.4 percent assumption of CBO. We, therefore, anticipate that the unemployment rate will be higher (7.4% vs. 6.9% and 7%, respectively, on their parts). Our members' inflation expectations, on the other hand, are very close to those used by OMB and CBO.

The bottom line of these differences in assumptions, coupled with our skepticism about government spending cuts, is that we expect virtually no improvement from this year's $200+ billion budget deficit in 1986 (or, for that matter, 1987). Both OMB and CBO, however, are projecting declines to approximately $175 billion (including off-budget agency spending) in fiscal year 1986.

Although still a majority (52%), fewer NABE members called for the next recession to begin before the end of 1986 than has been true for at least a year and a half. A year ago, 87 percent of our members believed that a recession would begin in either 1985 or 1986. The change in sentiment has

surely come as a result of the past year's tepid growth rate, which provided a nerve-racking but needed respite from the torrid pace of the recovery's first six quarters. Another factor allowing us to worry less about near-term recession is our strongly held belief (by 90% of respondents) that the dollar will move lower over the next year, which will add to GNP growth.

Economists are often accused of predicting many more recessions than ultimately occur. From looking at the recent record of our forecasts, that statement does not appear fully justified. It is true that we predicted the 1980 recession much too early, but we have not "jumped with both feet" on the recession bandwagon this time around. Despite all our fears about large budget deficits in 1983, 50 percent of us indicated at that time that recession was more than two years away. In the summer of 1984, we were understandably worried. With the prime rate at 13 percent, we were evenly split (44% vs. 43%) regarding whether recession would come in 1985 or 1986, and only 4 percent expected to reach 1987 without a recession. Now that we have had "the pause that refreshes," a substantial number of us expect to reach 1987 (35 percent) or even farther into the future (13 percent) before another recession begins.

Policy Views

Two-thirds of our members still think that monetary policy is "about right," but a significant number have become more concerned that monetary policy is too stimulative. More of us are worried today (22%) than at any time since the spring of 1983 -- the last time money growth was persistently and extraordinarily strong and also just previous to a Fed tightening. As could be anticipated, financial economists are most worried about the Fed's current very accommodative posture, whereas economists in goods-producing industries are not particularly concerned. A majority of us (51%) now feel that the Fed is setting policy primarily on the basis of real output performance, thus downplaying the importance of money growth.

NABE members (by a 77% majority) stick by their long-held belief that fiscal policy is too stimulative. Furthermore, we are pessimistic about near-term improvements on the fiscal side. Despite the fact that this survey was taken after passage of the August Congressional resolution to cut spending, our members are even less confident than three months ago that such action will become reality. (Fifty-nine percent are less confident now vs. 32 percent three months ago.) Nevertheless, we have moved slowly to the view that taxes should not be raised in order to reduce the deficit. Six months ago, 54 percent of our members believed that taxes should be raised, whereas now only 44 percent hold that view.

Nor are we as hopeful that tax reform, a concept that we supported in a survey six months ago, will pass. (Only 26 percent of us now expect passage vs. 46 percent three months ago.) If it does pass, however, we have strong views about its effects. We are not completely clear regarding whether it will add (29% of respondents), detract (37%), or have no effect (34%) on overall growth in its first year. But 56 percent of us believe that it will add to consumer spending and 72 percent believe that it will reduce investment. Furthermore, we expect lower real estate prices (84%) and interest rates (49%) but higher stock prices (45%). We believe the effects on our foreign trade position will be minimal.

We remain firm in our conviction that import tariffs are a bad idea (89%-to-11%), even if the countries involved run persistent and significant trade surpluses with the United States and the rest of the world. We do not believe that foreign country debt problems will have substantial economic effects in the year ahead (67%). But if those economic effects do occur, a majority (57%) recognizes that such problems would significantly impair the financial condition of major U.S. banks.

The Longer-Term: Forecast and Policy Prescriptions

Analysis of our longer-term vision indicates that we are taking a somewhat dimmer view of growth and productivity prospects over the next five years but that we have become progressively more optimistic about longer-term inflation prospects. We expect real growth to average 3 percent between now and the end of the decade and inflation to average 4.7 percent. Although we reduced our estimate of long-term productivity from 2.3 percent to 2 percent, we remain much more optimistic than in 1979, when we anticipated productivity growth of only a bit over 1 percent (and got only half that). Compared with actual performance over the past five years, our forecast would mean more growth, substantially better productivity performance, and significantly lower inflation in the years ahead.

Our current worries are reflected in our policy prescriptions. In order for NABE members to feel assured that the next five years will be years of economic stability, the policy adjustment we recommend most emphatically (that is, 77% of us) is a dramatic reduction in budget deficits. Next on our list of prescriptions are lower interest rates (with 50% calling for this action), limitation of Federal government spending growth to nominal GNP growth (44%), better coordination of industrial country policies (43%), and tighter money supply control (35%). We are not as convinced that a balanced budget amendment is necessary (only 20%) or that a sweeping solution to the foreign debt problem is needed (14%).

Only a handful of us believe that an import surcharge (9%), a commodity standard for monetary policy (6%), or a fixed exchange rate system (4%) would be important elements in assuring a stable economic system.

NABE Forecasts: A Look at the Record

Last year at this time, we were more optimistic about 1985 growth prospects than we now believe is realistic. Our current forecast for growth (from 1984's fourth quarter to 1985's) is 2.2 percent, compared to 3.1 percent a year ago. We were correct in predicting, though, that 1985 would be a substantially slower year than 1984. And remember that the prolonged sluggishness of the past year was just beginning when we were surveyed a year ago.

We are also less bullish now regarding this year's investment spending and profits picture. We anticipated more of an uptick in 1985 inflation than we do today -- 5.4 percent then and 3.8 percent now -- but we've hardly changed our minds at all on the unemployment rate. Our new lower growth and inflation estimates, coupled with our stable unemployment rate estimate, just goes to show that the models in our minds or in our computers are now more flexible with regard to both the Phillips Curve and Okun's Law than they were a decade or so ago.

Because of the attack our profession has been under over the past year or so, it is worthwhile taking a longer look backward at our forecasting record. Credit is due to Don Conlan who garnered the historical comparisons for the early years shown here for his vice presidential address in 1981. From looking at the historical record, it is clear that we were better able to predict year-ahead growth from 1976 to 1980 than has been true since. Our average absolute error was only 0.4 percent for the five years 1976 to 1980. It widened dramatically to 2.5 percent for the years 1981 to 1984, resulting in an absolute error averaging 1.3 percentage points for the entire period from 1976 to 1984.

These overall numbers mask one very large miss (of over 5 percentage points) in 1982. We predicted growth of 3 percent; instead the economy fell by 2.1 percent. It must be remembered, however, that the 1981-82 recession was getting underway as we were filling out our questionnaire forms. Besides, a brief year-long recovery was without precedent in postwar history at that time. If we could just forget about that miss, our record would look a good deal better (0.9% instead of 1.3%).

The average absolute error of our inflation forecasts is a similar 1.4 percent. The size of our errors did not fluctuate from year to year nearly as much for inflation as

for growth. Furthermore, the pattern of errors was more stable: We consistently underestimated inflation as it was rising in the late 1970s and consistently overestimated inflation as it slowed from 1982 to 1984.

Analyzing our record on interest rates is somewhat more difficult because, for the years 1982 to 1984, our surveys did not ask for specific numerical forecasts of interest rates. Given the interest rate uncertainty of that period, the decision not to include specific numerical forecasts is evidence of how uncomfortable we were regarding our probable performance. (Or, to put it another way, who says economists aren't smart?)

For the period from 1976 to 1981, our average absolute error was 1.9 percentage points for Treasury bills, not a particularly laudable performance. For the years 1982 and 1983, when average interest rates moved significantly lower, our forecast of the direction of rates was correct. More than half of us predicted that interest rates would be sharply or appreciably lower in 1982 (and, in fact, they averaged 3.4 percentage points lower), and 62 percent forecast either moderate or sharp rate declines in 1983 (when rates actually dropped by 2 points). With regard to 1984, our forecast was reasonably accurate as well. Almost half of NABE members (46%) predicted that rates would move higher, and another 22 percent indicated little or no change. The historical fact is that Treasury bill rates rose by less than 1 percentage point that year.

Conclusions

The slow growth of the past year has made us cautious (perhaps overly so) in our predictions for 1986. On the other hand, we are being lulled into the belief that inflation will stay low, in large part because we have consistently overestimated inflation during the past four years. If history is any guide, we will soon begin to err on the low side of inflation -- if not in 1986, then certainly in 1987. That is not to say that secular disinflation is behind us. It merely means that we have demonstrated a bias in our cyclical inflation forecasts: As inflation rises, we underpredict; as inflation falls, we overpredict.

Our seemingly age-old message to Congress is to reduce government spending and budget deficits on a long-term basis or the consequences will come home to roost. And we are putting up a warning flag to the Fed that current monetary policy may be too stimulative to be compatible with long-term disinflation and stable economic growth.

In presenting last year's survey results, Ben Laden pointed to a significant conclusion which is completely consistent with this year's results: "Business economists are more concerned about the correct structural policies for the long-run than they are about trying to fine-tune the business cycle." The reason for our longer-run focus is, of course, our understanding that the study of economics is much better at predicting ultimate policy results than at divining the fluctuations along the way.

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TABLE 1.

Conditions In Your Company During The Past Three Months
(Percentages of Those Responding)

Subject	SURVEY DATE	TOTAL ALL SECTORS			GOODS-PRODUCING		
		RISING	SAME	FALLING	RISING	SAME	FALLING
Demand (Unit Volume)	3Q85	44%	33%	23%	34%	42%	24%
	2Q85	41	35	24	43	32	25
	1Q85	50	30	20	45	32	23
	4Q84	47	35	18	42	39	19
	3Q84	57	32	11	53	36	11
	2Q84	75	20	5	81	15	4
	1Q84	74	24	3	88	10	2
	4Q83	70	28	2	84	16	0
	3Q83	66	25	9	74	23	3
	2Q83	59	27	14	65	20	15
	1Q83	43	33	24	38	30	33
	4Q82	32	41	28	21	43	36
	3Q82	33	39	29	30	25	45
	2Q82	29	32	39	15	23	62
Employment	3Q85	16%	54%	30%	16%	48%	36%
	2Q85	22	56	22	23	52	25
	1Q85	23	55	22	24	50	26
	4Q84	21	60	19	23	54	23
	3Q84	26	59	15	30	59	11
	2Q84	36	55	9	44	50	6
	1Q84	34	54	13	36	48	16
	4Q83	36	49	15	43	41	16
	3Q83	31	52	17	34	45	20
	2Q83	22	60	18	19	55	26
	1Q83	13	55	32	10	44	46
	4Q82	13	54	33	10	33	56
	3Q82	9	57	34	8	37	55
	2Q82	19	46	34	17	32	51
Inventories (Unit Volume)	3Q85	25%	38%	37%	29%	33%	38%
	2Q85	34	41	25	39	34	27
	1Q85	23	42	35	29	37	34
	4Q84	33	46	21	40	37	23
	3Q84	35	40	25	40	39	21
	2Q84	51	37	13	49	38	13
	1Q84	23	47	30	20	41	39
	4Q83	35	42	23	33	42	25
	3Q83	26	38	36	23	32	45
	2Q83	22	38	40	13	36	52
	1Q83	25	33	42	8	33	59
	4Q82	25	41	34	19	37	44
	3Q82	18	52	30	16	43	41
	2Q82	25	30	45	29	20	52

TABLE 1 (Continued)

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	TOTAL ALL SECTORS SAME	TOTAL ALL SECTORS FALLING	GOODS-PRODUCING RISING	GOODS-PRODUCING SAME	GOODS-PRODUCING FALLING
Capital Investment Outlays (Constant Dollars)	3Q85	31%	48%	21%	30%	47%	23%
	2Q85	39	43	18	41	44	15
	1Q85	39	49	12	45	42	13
	4Q84	52	36	12	59	31	10
	3Q84	50	41	9	59	37	4
	2Q84	43	52	6	45	53	2
	1Q84	46	46	8	46	46	8
	4Q83	33	56	11	29	60	11
	3Q83	39	46	14	26	55	19
	2Q83	32	41	27	17	45	38
	1Q83	20	55	26	16	42	42
	4Q82	21	44	35	20	27	53
	3Q82	28	39	33	24	27	49
	2Q82	33	39	28	39	29	32
Profit Margins	3Q85	22%	31%	47%	22%	29%	49%
	2Q85	25	35	40	26	32	42
	1Q85	27	38	35	26	38	36
	4Q84	41	33	26	33	36	31
	3Q84	34	52	14	27	61	12
	2Q84	43	37	20	70	20	10
	1Q84	40	45	16	52	35	13
	4Q83	54	27	19	67	21	13
	3Q83	45	27	29	55	33	13
	2Q83	44	33	23	40	34	25
	1Q83	33	30	38	22	32	46
	4Q82	39	22	39	30	19	51
	3Q82	31	27	42	20	22	58
	2Q82	18	23	59	7	21	72
Prices You Charge	3Q85	15%	57%	29%	14%	57%	30%
	2Q85	22	58	20	23	58	19
	1Q85	25	48	27	25	43	32
	4Q84	25	52	23	22	47	31
	3Q84	18	60	22	14	62	24
	2Q84	50	45	5	36	52	12
	1Q84	23	67	11	28	54	18
	4Q83	20	70	11	19	70	11
	3Q83	32	56	12	20	62	19
	2Q83	18	48	34	24	52	24
	1Q83	10	46	44	15	43	43
	4Q82	12	44	44	13	49	38
	3Q82	15	50	35	15	54	31
	2Q82	17	62	21	9	55	36

TABLE 1 (Continued)

Subject	SURVEY DATE	TOTAL ALL SECTORS			GOODS-PRODUCING		
		RISING	SAME	FALLING	RISING	SAME	FALLING
	3Q85	34%	63%	3%	28%	68%	4%
	2Q85	40	57	3	38	59	3
	1Q85	39	59	2	42	54	4
	4Q84	34	63	3	46	54	0
	3Q84	37	62	1	34	66	0
	2Q84	41	58	2	38	62	0
Wages	1Q84	45	52	3	40	54	6
You	4Q83	44	52	3	39	57	4
Pay	3Q83	40	55	6	24	68	8
	2Q83	36	56	8	31	62	7
	1Q83	51	43	6	51	42	7
	4Q82	38	52	10	36	53	11
	3Q82	45	50	5	41	51	8
	2Q82	53	40	7	--	--	--

TABLE 2.

General Business Outlook
(Median Estimates)

	Survey Date			
	3Q85	2Q85	1Q85	4Q84
Real GNP (% Change)				
2H85	2.7%	3.0%	3.4%	
4Q84 to 4Q85	2.2	2.9	3.3	3.0%
1984 to 1985	2.5	3.0	3.5	3.3
4Q85 to 4Q86	2.7			
1985 to 1986	2.8	2.5		
CPI-U (% Change)				
4Q84 to 4Q85	3.8%	4.0%	4.4%	4.7%
1984 to 1985	3.7	4.0	4.2	4.7
4Q85 to 4Q86	4.4			
1985 to 1986	4.1	4.5		
Civilian Unemployment Rate				
4Q85	7.3%	7.2%	7.0%	7.3%
1985 Average	7.3	7.3	7.1	7.3
1986 Average	7.4			
Prime Rate				
December 31, 1985	9.5%	10.6%	11.0%	12.4%
June 30, 1986	9.8			
December 31, 1986	10.0			
Housing Starts (Private non-farm, annual rate, in millions)				
4Q85	1.75			
1985 Total	1.77	1.74	1.7	1.65
1986 Total	1.73	1.65		
New Car Sales (Includes imports, annual rate, in millions)				
4Q85	10.6	10.6	10.4	
1985 Total	10.7	10.7	10.4	10.4
1986 Total	10.4	10.4	10.0	
Real Business Fixed Investment (% Change)				
4Q84 to 4Q85	5.9%	7.0%	8.0%	7.3%
1984 to 1985	7.8	8.5	10.0	9.0
1985 to 1986	5.2	5.3	6.0	
Budget Deficit (Billions)				
FY 85	$205	$220	$210	$180
FY 86	200	205	200	180
Corporate Profits (After-Tax) (% Change)				
1984 to 1985	-5.0%			
1985 to 1986	3.7			

TABLE 3.

General Business Outlook By Industry Of Respondent
(Median Estimates)

	Overall	Goods-Producing	Wholesale or Retail Trade	Utilities, Transport. Commun.	Nonbank Finance	Comm'l. Banking	Academic	Government	Consulting
Real GNP % Change 4Q85 to 4Q86	2.7%	2.5%	2.6%	2.6%	3.0%	3.0%	2.5%	2.0%	2.7%
CPI % Change 4Q85 to 4Q86	4.4%	4.1%	4.4%	4.3%	4.5%	4.5%	4.4%	4.2%	4.1%
Unemployment Rate 1986 Average	7.4%	7.4%	7.4%	7.5%	7.2%	7.2%	7.5%	7.5%	7.5%
Prime Rate									
December 1985	9.5%	9.3%	9.3%	9.5%	9.5%	9.8%	9.5%	9.4%	9.5%
June 1986	9.8	9.5	9.5	9.5	10.0	10.4	9.5	9.5	9.7
December 1986	10.0	9.5	10.5	10.0	10.3	10.5	9.5	10.0	10.4
Housing Starts (millions) 1986 Total	1.73	1.75	1.70	1.70	1.75	1.70	1.75	1.77	1.70
New Car Sales including imports (millions) 1986 Total	10.4	10.5	10.4	10.7	10.3	10.5	10.0	10.6	10.4
Real Business Fixed Investment % Change 1985 to 1986	5.2%	5.0%	12.0%	5.4%	4.4%	6.0%	5.0%	7.4%	5.9%
Corporate Profits	3.7%	3.5%	4.0%	4.0%	5.0%	4.4%	1.0%	-0.5%	3.0%
Budget Deficit FY 1986 (billions)	$205	$200	$224	$213	$200	$200	$220	$210	$217

TABLE 4.

Cyclical Peak and the Dollar's Value

1. In what year and quarter do you expect the next recession to begin?

Survey Date	1985	1986	1987	1988 or later
3Q85	10%	42%	35%	13%
2Q85	13	58	24	5
1Q85	29	52	13	4
4Q84	41	46	7	0
3Q84	44	43	4	1
2Q84	57	26	4	1

1985		1986				1987				1988
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 or later
4	6	8	10	15	9	12	13	5	5	13

2. What change in the international value of the dollar, calculated on a trade-weighted basis, do you expect between now and the end of 1986?

Up more than 10%	1%
Up 0% to 10%	5
None (e.e. no change)	4
Down 0% to 10%	58
Down more than 10%	32

TABLE 5.

The Regional Outlook

Last Quarter's Survey
Results Shown in Parentheses

Growth by Region

Do you think the overall growth rate in your part of the country will be faster or slower than the national rate during the next 12 months?

	Faster		Same		Slower	
Northeast	46%	(40)	37%	(43)	17%	(17)
North Central	9	(10)	35	(39)	56	(51)
South	49	(44)	28	(31)	23	(25)
West	50	(42)	18	(22)	32	(36)

Unemployment By Region

Do you think the unemployment rate in your part of the country will be higher or lower than the national rate during the next 12 months?

	Faster		Same		Slower	
Northeast	44%	(52)	28%	(26)	27%	(22)
North Central	8	(9)	15	(16)	77	(75)
South	59	(55)	23	(26)	18	(19)
West	37	(42)	25	(21)	38	(37)

TABLE 6.

NABE Forecast Compared to OMB and CBO

	1985			1986		
	OMB	CBO	NABE	OMB	CBO	NABE
Real GNP (% Change 4Q to 4Q)	3.0%	2.6%	2.2%	4.0%	3.4%	2.7%
CPI (% Change 4Q to 4Q)	3.8%	3.9%	3.8%	4.3%	4.8%	4.4%
Unemployment Rate (Year Average)	7.2%*	7.2%	7.3%	6.9%*	7.0%	7.4%
Budget Deficit - Fiscal Year (Billions)	$211**	$210**	$200	$178**	$175**	$205

*Adjusted to reflect only civilian unemployment.
**Includes the off-budget deficit (of approximately $10 billion in 1985)

OMB = Office of Management and Budget
CBO = Congressional Budget Office

Sources: Mid-Session Review of the 1986 Budget, OMB, August 1985.
The Economic and Budget Outlook: An Update, CBO, August 1985.
NABE Membership Survey, August/September, 1985.

TABLE 7.

Policy Issues

1. Have recent monetary policy actions been too stimulative, or too restrictive?

Survey Date	Too Stimulative	About Right	Too Restrictive
3Q85	22%	67%	11%
2Q85	11	76	13
1Q85	10	81	9
4Q84	7	68	25
3Q84	4	85	11
2Q84	12	74	14
1Q84	3	78	19
4Q83	3	82	15
3Q83	23	69	8

2. Which variable do you think currently plays the most important role in the Federal Reserve's monetary policy decisions?

	3Q85	2Q85
Monetary aggregates	12%	16%
Nominal output	14	15
Real output	51	35
Inflation	10	16
Value of the dollar	7	6
Interest rate levels	6	12

3. Is current fiscal policy too stimulative, or too restrictive?

Survey Date	Too Stimulative	About Right	Too Restrictive
3Q85	77%	15%	8%
2Q85	79	16	5
1Q85	76	19	5
4Q84	79	16	5
3Q84	82	15	3
2Q84	83	14	3
1Q84	81	14	4
4Q83	73	22	5
3Q83	76	20	5

4. Compared with three months ago, how confident are you that meaningful action to reduce the growth of federal government spending over the next five years will occur by December 1985?

	3Q85	2Q85
More confident	12%	33%
Less confident	59	32
Neither more nor less	28	35

TABLE 7 (Continued)

5. Do you believe some form of Federal tax increase should be enacted in 1985 to help lower the Federal deficit?

	3Q85	2Q85	1Q85
Yes	43%	47%	54%
No	57	53	46

6. Do you expect meaningful tax reform to be enacted during 1985 or 1986?

	3Q85	2Q85
Yes	26%	46%
No	74	54

7. If tax reform is enacted along the lines of the President's latest proposal, what effect would it have during its first year on:

	Higher	Lower	No Effect
Consumer spending	56%	16%	28%
Stock prices	45	36	19
Real estate prices	6	84	10
Investment spending	17	72	11
Interest rates	24	49	27
Overall economic growth	29	37	34
Foreign trade deficit	24	26	50

8. Do you expect foreign country debt problems to have a significant effect on the economy and interest rates in 1986?

Yes	33%
No	67

9. If foreign country debt problems do occur, would you expect them to significantly impair the financial condition of major U.S. banks?

Yes	57%
No	43

10. Do you support the bill to place import tariffs of up to 25% on countries continuing to run signficant trade surpluses with the U.S. and the world?

Yes	11%
No	89

TABLE 8.

NABE Forecast For 1985 -- Then And Now

	Last Year's Forecast 1985	Current Forecast 1985
Percent Changes		
Real GNP (4Q-to-4Q)	3.1%	2.2%
Real Business Fixed Investment	10.1	7.8%
Consumer Prices (CPI-U, 4Q-to-4Q)	5.4	3.8
Corporate Profits (After-Tax)	8.1	-5.0
Levels		
Civilian Unemployment (%)	7.2%	7.3%
Housing Starts (millions)	1.6	1.77
Total Auto Sales (millions)	10.3	10.7

TABLE 9.

NABE Consensus Long-Term Outlook

Projected Real GNP Growth

Years Forecast	Projected Rate	Historical Record	Actual Rate
1975 (74-79)	3.7%	1974-79	3.5%
1976 (75-80)	4.1	1975-80	3.7
1977 (76-81)	3.7	1976-81	3.1
1978 (77-82)	3.4	1977-82	1.6
1979 (78-83)	2.7	1978-83	1.3
1980 (79-84)	3.0	1979-84	2.8
1981 (80-85)	3.2	1980-85e	2.7
1982 (81-86)	2.6		
1983 (82-87)	2.8		
1984 (83-88)	3.3		
1985 (84-89)	3.0		

Projected Inflation Rate*

1975 (74-79)	6.4%	1974-79	7.3%
1976 (75-80)	5.8	1975-80	7.2
1977 (76-81)	6.0	1976-81	8.1
1978 (77-82)	6.5	1977-82	8.1
1979 (78-83)	7.6	1978-83	7.4
1980 (79-84)	8.2	1979-84	6.5
1981 (80-85)	7.3	1980-85e	5.5
1982 (81-86)	6.6		
1983 (82-87)	6.0		
1984 (83-88)	5.5		
1985 (84-89)	4.7		

Projected Productivity Growth
(Nonfarm Business Sector)

1979 (78-83)	1.2%	1978-83	0.6%
1980 (79-84)	n.a.	1979-84	1.4
1981 (80-85)	1.4	1980-85e	1.6
1982 (81-86)	1.5		
1983 (82-87)	1.8		
1984 (83-88)	2.3		
1985 (84-89)	2.0		

*GNP Deflator for 1975-1981; CPI-All Urban Consumers for 1982-1985.

TABLE 10.

Long-Term Policy Issues

What policy adjustments would you suggest to assure a period of economic stability in the next five years?

Dramatic reduction in budget deficits	77%
Lower interest rates	50
Limit Federal expenditures to nominal GNP growth rate	44
Better coordination of industrial country policies	43
Better control of the money supply	35
Balanced budget amendment	20
Sweeping solution to foreign debt problem	14
Import surcharge	9
Commodity standard for monetary policy	6
Fixed exchange rate system	4

TABLE 11.

A History of NABE Forecasts
(Forecasts Made the Preceding Summer)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average Absolute Error
Real GNP Growth - Annual Average										
Forecast	5.8%	5.1%	4.5%	2.5%	0.1%	0.7%	3.0%	2.9%	4.5%	
Actual	5.4	5.5	5.0	2.8	-0.3	2.5	-2.1	3.7	6.8	
Difference	+0.4	-0.4	-0.5	-0.3	+0.4	-1.8	+5.1	-0.8	-2.3	1.3%
Inflation -- Annual Average[1]										
Forecast	6.5	6.0	6.2	7.3	7.8	8.9	8.3	6.5	5.0	
Actual	5.2	5.8	7.4	8.6	9.2	9.6	6.0	3.2	4.3	
Difference	+1.3	+0.2	-1.2	-1.3	-1.4	-0.7	+2.3	+3.3	+0.7	1.4%
Change in Average Treasury Bill Rates (in percentage points)										
Forecast	+1.17	+1.03	+.74	+.20	-1.06	-1.15	lower[2]	lower[2]	higher[4]	
Actual	-.80	+.29	+1.92	+2.88	+1.36	-2.59	-3.40	-2.01	+.91	
Difference	+2.97	+.74	-1.18	-2.68	-2.42	+1.44				1.9%

[1] GNP Deflator for 1976-82; CPI for 1983-84.
[2] 52% said short-term rates would be sharply or appreciably lower;
[3] 32% said slightly lower.
62% said either moderately or sharply lower;
[4] 22% said little or no change.
5% said sharply higher; 41% moderately higher; and
22% little or no change.

Source: The forecasted values for the years 1976 to 1982 were provided by Don R. Conlan in his vice presidential address in September 1981.

TABLE 12.

A History of NABE Recession Forecasts
(Responses to the question: "When Will the Next Business Cycle Downturn Begin?")

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Year	--	5%	7%	96%	N/A	25%	0%	1%	8%	10%
Next Year	6	29	59	3		7	10	8	44	42
Year After Next	54	43	34	1		16	17	41	43	35
More Than Two Years From Now	40	24	--	--		47	73	50	4	13
No Opinion/ No Response	0	0	0	0		5	0	0	1	0

SOURCE: The data for the years 1976 to 1981 were provided in Don R. Conlan's vice presidential address in September 1981.

TABLE 13.

A History of NABE Forecasts of the
Trade-Weighted Dollar's Value
(Forecasts Made the Preceding Summer)

	1982	1983	1984	1985	1986
Down sharply	3%	7%	12%	N/A	32%
Down moderately	36	50	50		58
Unchanged	10	26	21		4
Up moderately	39	17	16		5
Up sharply	8	0	1		1
No response	4	--	--		--
ACTUAL	+10.9%	+6.1%	+9.7%	-8.0%e	N/A